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SECTOR COMPETITIVENESS FRAMEWORKS

FOREST PRODUCTS HIGHLIGHTS

Industry Sector
Forest Industries and Building Products

Secteur de l'industrie
Industries forestières et matériaux de construction

Canada

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The objective of the **Sector Competitiveness Frameworks** series is to seek ways in which government and private industry together can strengthen Canada's competitiveness and, in doing so, generate jobs and growth.

In all, some 29 industrial sectors will be analyzed. *Part 1 — Overview and Prospects* will be available for distribution in printed as well as electronic forms during coming months for the following industries:

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Electronic copies of *Forest Products: Part 1 — Overview and Prospects* are available on the Internet at the following address: http://strategis.ic.gc.ca/forest_products.scf

This Highlights document can be made available in alternative formats upon request.

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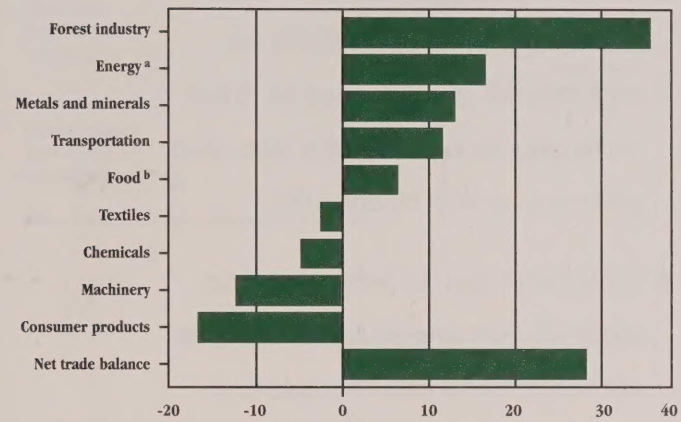
HIGHLIGHTS

The Canadian forest products industry is a leading component of the nation's manufacturing sector and its largest net exporter.

Forest Products are the Leading Contributor to Canada's Trade Balance, 1995



[a] Energy includes electricity, petroleum, coal and natural gas.
[b] Food includes wheat and other farm and fish products.

Source: Industry Canada estimates based on data from Statistics Canada, Catalogue Nos. 65-007 and 65-004, 1995.

- The forest products industry is a cornerstone of the economy and a major employer in all regions of Canada.
- Total shipments in 1995 stood at $56.5 billion.
- The industry purchases over $6 billion worth of inputs from other industries.
- It employs more than 225 000 Canadians directly, and supports several hundred thousand more jobs, many in communities relying solely on the industry for their livelihood.

Canada is the world's largest exporter of forest products.

- We are the world's largest producer of newsprint and the second largest producer of pulp and softwood lumber.

The Canadian forest products industry is highly diverse.

- While industry manufacturing output is highly oriented toward the major commodities such as newsprint, pulp and softwood lumber, it also produces a wide variety of value-added products, including specialty papers and manufactured wood products.
- Although the Canadian forest industry's history goes back two centuries, today it is very much a modern and technologically advanced sector. For example, laser scanners and X-ray imaging are used to optimize timber yields in solid wood products manufacturing, and electronic sensors control automated pulp and paper processes.
- The industry is largely Canadian owned, with firms ranging in size from small enterprises to some of Canada's largest corporations.

The Canadian forest products industry has the advantage of being based on a vast, renewable resource.

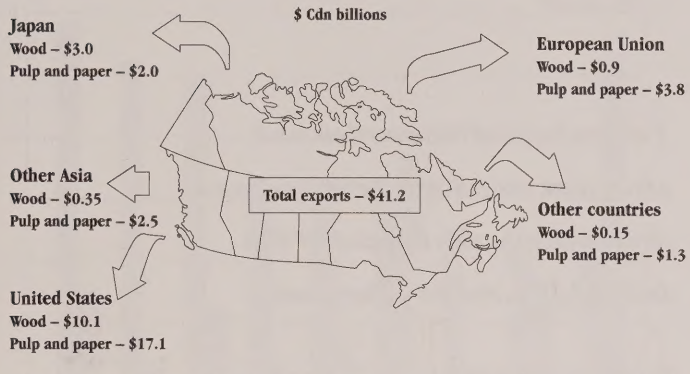
- Canada has over 450 million hectares of forest land, including the world's second largest softwood commercial forest (behind Russia).
- The resource is predominantly owned and regulated by the provinces; only 6 percent is privately owned.
- While foreign competitors can harvest fibre from managed plantations at lower cost, the superior quality of Canada's resource and locational advantages are offsetting competitive factors.
- Through intensive forest management, the productivity of Canada's forest base can be increased.
- Based on a renewable resource with recyclable outputs, the sector can become a model of sustainable development.
- As the volume of wood available for harvest from commercial forest land approaches its sustainable limit, it becomes increasingly important to maximize the value from each unit of wood.

The capital-intensive nature of the industry presents major challenges to its competitiveness.

- The forest products industry is Canada's most capital-intensive industry and accounted for nearly a third (29 percent) of the nation's total manufacturing capital expenditures in 1995.
- The industry has invested heavily to increase productivity and meet environmental standards. In recent years, investment has shifted toward modernization and higher value-added production, mostly at existing mills.
- The industry's financial performance varies widely with fluctuations in the business cycle, and average returns have been modest.
- Half of the capital equipment, including most of the advanced technology, is imported. An increased Canadian source of supply of this equipment would provide high-wage, skilled jobs and stimulate technological synergy between the forest sector and supplying industries, including the environmental technologies industries.

Market access is vital to both the forest sector and to Canada as a whole.

Strong Trade Performance in Forest Products, 1995



Source: Statistics Canada, Catalogue No. 65-004, 1996.

- Canada exports nearly 75 percent of its forest sector output.
- Canada has made important progress in opening markets through multilateral trade agreements.
- Non-tariff barriers such as recycled content, building codes and standards, and plant health regulations are increasing in importance as impediments to foreign market access, and are often more difficult to overcome than tariffs.
- The forest sector must continue to demonstrate its commitment to sustainable development to avoid harmful conflict with its consumer and host communities.
- Strong exports to the United States often provoke protectionism.
- The 1994 Canada–Japan agreement on building product standards has improved access to Japan for many value-added products.

The forest products industry must apply advanced technology and increase its research and development (R&D) to keep pace with international competition.

- Current R&D levels may have been appropriate for a commodity-based industry. Future success will increasingly depend on innovation and application of new technology.
- While a number of industry firms conduct proprietary research, much R&D is done collaboratively to address issues of common concern to the entire industry. Three world-class research institutes in Canada are devoted to R&D in the forest products industry. As the principal owners of the forest resource, governments are significant stakeholders in forest research.

- Shifting manufacturing to market-focussed, higher margin-added products could help reduce the industry's vulnerability to business cycles and improve its financial performance. These products require increased investment in R&D and development of advanced manufacturing processes as well as product promotion.

Technological innovation requires increasing job skills and is changing employment patterns.

- The areas with increased potential for rapid growth and new employment opportunities include higher value-added products manufacturing, new suppliers sector and forest management.

- The industry must accelerate its embrace of an innovative culture, be receptive to new technology and the development of differentiated products that command premium prices.

- The pace of technological change means worker skills must be constantly upgraded. Even a capital-intensive, resource-based industry still achieves its best competitive advantage through its human assets.

- Industry Canada, working in partnership with industry and other stakeholders, has designed programs at the high school, college and university levels to provide students with the skills needed to benefit from job opportunities in the sector.

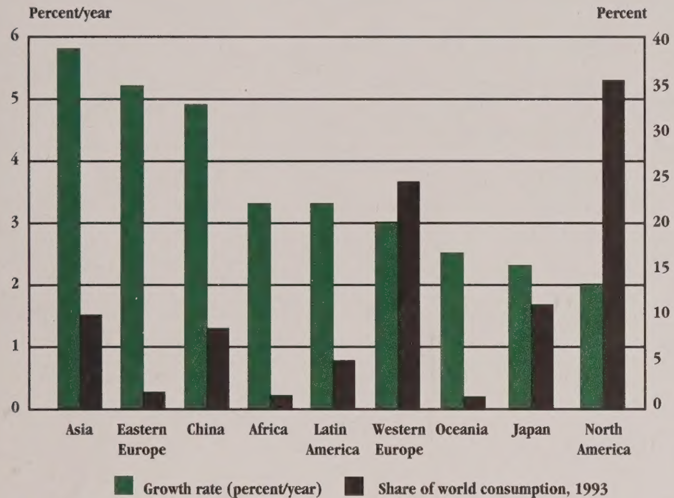
Technological innovation and stringent standards have reduced dramatically the impact of the industry on the environment.

- New technologies, such as "closed-loop" pulp and paper mills, have the potential to virtually eliminate effluents.

- Government must demand world-class standards of environmental performance while minimizing economic costs. The federal government is working with the provinces, producers and others to reduce regulatory burden and inefficiency.

The outlook for the industry foresees increasing global demand and more competition.

Projected World Paper Demand Growth
1993–2000



Source: Jakko Poyry Consulting Inc., presentation by James McWatt to the Canadian Pulp and Paper Association Open Forum, Montreal, January 30, 1996.

- In contrast to the stagnant growth of many other resource-based industries, global demand for forest products continues to increase.

- New forest plantations in fast-growth climates could pose a major challenge to Canadian producers, notwithstanding opportunities for Canada to increase its forest yields.

- Russia's vast, largely untapped softwood forests will challenge Canada in the future but could also represent an opportunity for the Canadian industry to expand business interests.

- However, the industry's reliance on a substantial, renewable resource base uniquely positions it to sustain its pre-eminent position in global markets and sets it apart from many other resource sectors.

- Strategically, Canada must extract more value from its resource base, shifting its orientation from commodities to higher value-added products.

- The industry must continue to adapt its products to meet progressively higher customer expectations. It must also cultivate the image and reality of being an environmentally responsible custodian of the forest resource and producer of forest products.

- Electronic media and information technology hold the potential to dramatically alter patterns of demand for paper, leading to structural changes in the industry.

- An emerging global focus on housing is creating an unprecedented opportunity for Canada to emerge as a major exporter of housing and building products.
- Canadians can count on their forest products industry to be a vital, continuing source of economic wealth through the next century.

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